

# CIO

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September 1, 2012 \$9.00

# THE NEW BOTTOM LINE ON CIO PAY

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BY KIM S. NASH

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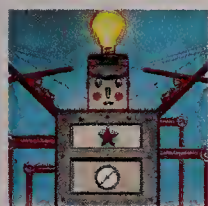
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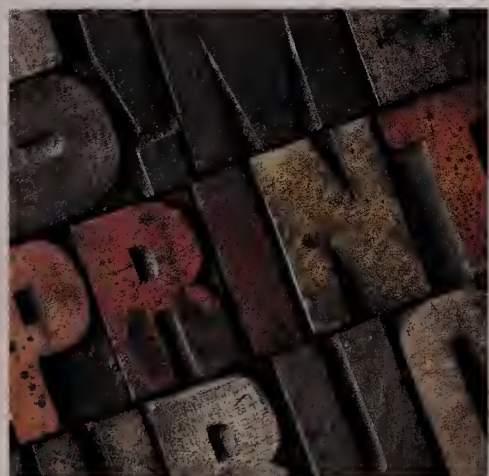


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# The New Bottom Line on CIO Pay **22**

**COVER STORY** Our exclusive research reveals how much top-tier CIOs' compensation rises and falls with their companies' fortunes

BY KIM S. NASH



Allstate CIO **Suren Gupta** got a \$500,000 bonus last year for quickly realigning the IT group to focus on business needs.







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FROM THE  
EDITOR IN CHIEF

# start

## CHATTER

### Coming of Age

**How much is a great CIO worth?** That question has generated dozens of stories over the years about the most highly paid CIOs, along with some “OMG!”-inspiring lists of multi-million-dollar earners.

But the far more interesting story—the one behind the numbers—is what inspired our cover story this month (“The Bottom Line on CIO Pay,” Page 22). Senior Editor Kim S. Nash set out to discover exactly what kind of business metrics and financial targets these top CIOs have to hit. What does that seat at the table require in terms of deliverables?

To put together this uniquely revealing, well-researched story, Nash pored over the Fortune 1000’s latest proxy statements—where companies list their top five most highly paid executives, as required by the Securities and Exchange Commission—to find those that included CIOs. Forty-five IT leaders made that cut.

Then she delved into their publicly available compensation plans (set by boards of directors) to find the most illuminating examples of the business metrics used to gauge these CIOs’ performance. Those metrics don’t come from any standard checklist, either. Company profits and sales revenue show up, of course, but CIOs are just as likely to be judged by any of a dozen other measures (see “Paycheck Metrics,” Page 24).

Along the way, Nash also researched the general business conditions facing those companies so she could put each CIO’s performance requirements into a larger context.

One of her exclusive findings in that analysis was that the pay packages of CIOs and other executives can fluctuate by as much as 40 percent year-to-year. In her interviews with these CIOs, many talked about the importance of having companies measure them just like any other C-level executive. “Anything we do in IT must tangibly affect something that our customers can feel [or] that our P&L sheet can see,” says CIO Wayne Shurts of Supervalu, the financially struggling grocery store chain. “Even just five years ago, how much did we talk about IT and the [corporate] revenue line at a company? Very little. Today it’s a big thing.”

Even bigger is what this story tells us about the coming-of-age of the CIO profession, which is one of the youngest in the C-suite, yet has a measurable strategic impact. “For us, it’s not just aligning with the business. IT has to be *in* the business,” says CIO Lidia Fonseca of Laboratory Corporation of America. “That has been a key driver in being an effective CIO.”

Maryfran Johnson, Editor in Chief, CIO Magazine & Events  
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### Big Data Gets Educated

Because colleges have to serve **large populations** that use their own devices, they have been turning to **big data analytics** to manage **bring-your-own-device** security. Senior Online Writer Thor Olavsrud says that the University of Texas at Austin is a prime example of this trend. The university has as many as **120,000 devices** connected to its network at any given time. The CISO of the university used to rely on intrusion-detection systems and custom software for security, but now uses Splunk to **identify threats** to the network and **alert affected departments** faster. [www.cio.com/article/712569](http://www.cio.com/article/712569)

### Security Scapegoats

Contributing Writer Bill Snyder says that cloud storage will probably never be completely secure, but using the **same password for several logins** just makes the problem worse. Dropbox was reminded of this when it was **hacked recently**, and it cited careless users—those who don’t use unique passwords—as contributing to the security breach. Dropbox recommends using sites such as iPassword to **save your passwords** but also says it needs to do a better job of keeping its users safe. [blogs.cio.com/node/17276](http://blogs.cio.com/node/17276)

### Paving the Way for iPads

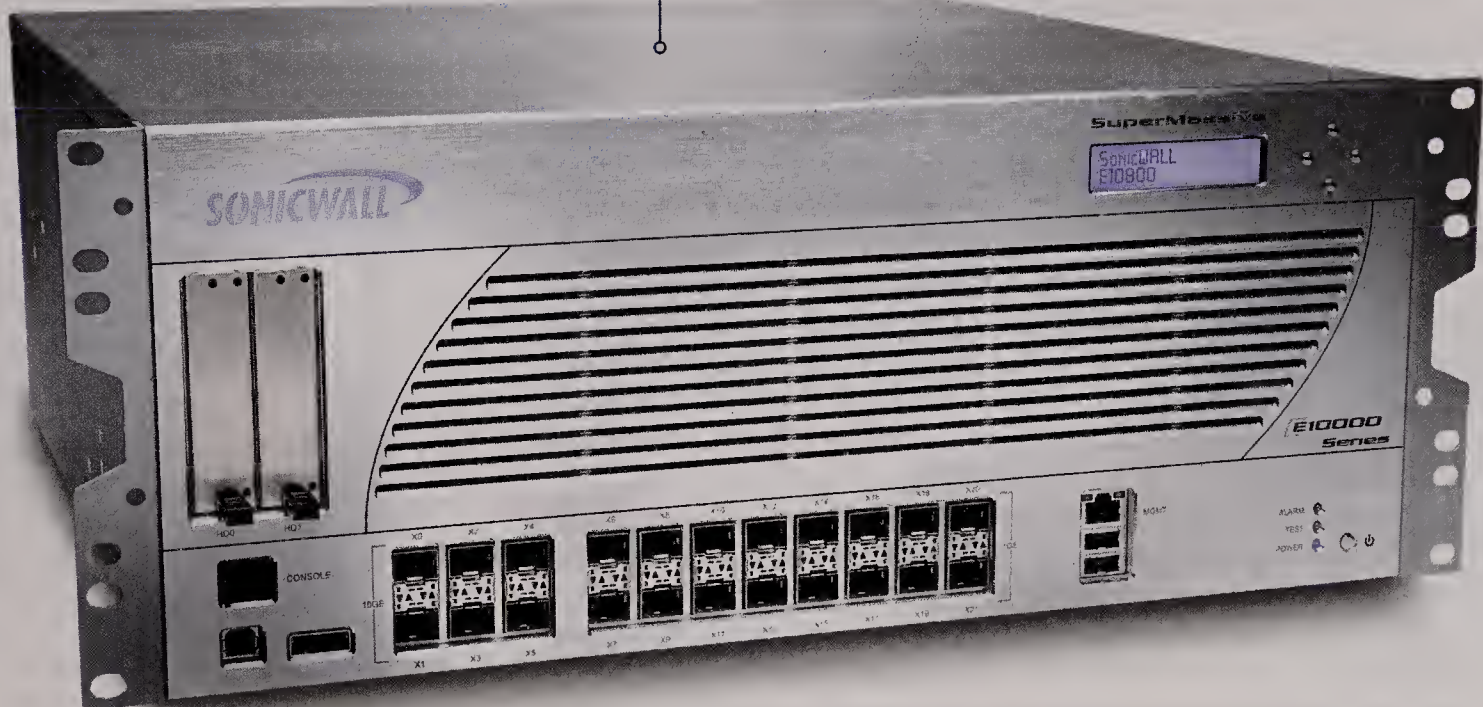
Senior Online Writer Tom Kaneshige talked to Paul Lanzi, manager of the enterprise mobility team at Genentech, about why the biotech giant built its own **enterprise app store** in 2008 (hint: no **off-the-shelf app stores** existed then). The company also has more than 14,000 iPads in use alongside laptops, giving Lanzi valuable insight into the **costs and benefits of tablet adoption**. [www.cio.com/article/712185](http://www.cio.com/article/712185)

Compiled by Editorial Assistant Lauren Brousell. Have a comment about a story in this issue? Go to [www.cio.com/issue/20120901](http://www.cio.com/issue/20120901) or write to [letters@cio.com](mailto:letters@cio.com).



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FROM THE **CEO**

## Corporate DNA

**When Yahoo named Marissa Mayer** as its new CEO recently, the news got a lot of attention. Yahoo's Chairman Fred Amoroso called Mayer the perfect choice because of her "unparalleled track record in technology, design and product execution."

But in the flood of commentary and reaction that followed, the remark that really caught my attention came from Netscape co-founder and venture capitalist Marc Andreessen. He said Yahoo hired a "product-centered CEO" in Mayer rather than going with interim CEO Ross Levinsohn, who Andreessen considers a "sales-centric CEO."

That insight fascinated me because it drills right down to the core of what a company wants to be and how well its culture supports that. In every industry, there are successful companies approaching the market with different business philosophies and cultural makeups. In the technology market, for example, EMC is known for its sales culture; Google and Microsoft for their engineering cultures; IBM and HP for their operational cultures; Amazon for its supply-chain culture; and Apple for its design and marketing culture.

Stop and think: What is the cultural DNA of your company?

That's an especially important question for CIOs to answer and understand. It helps you define what IT must deliver to be viewed and respected as a business partner. Yet one of the unsettling things I noticed earlier this year in our State of the CIO research was that 48 percent of you said your business peers thought of the IT organization as a cost center or service-delivery organization. Given the solid results IT has delivered since the Great Recession of 2007-2009, I was surprised by how high that percentage was.

With your IT organizations doing some of their best and most transformative work in the slowly recovering economy, how can half of you still be seen as cost centers or service organizations? Perhaps the answer lies in a mismatch of cultural DNA between IT and the CEO. For instance, an IT organization that delivers amazing technical solutions would be highly valued in an engineering culture. But if the company has a sales culture, the business executives won't be impressed.

So, what's your corporate DNA and how much does it matter to IT? I'd love to hear your thoughts, so drop me a line anytime.

Michael Friedenber, President and CEO  
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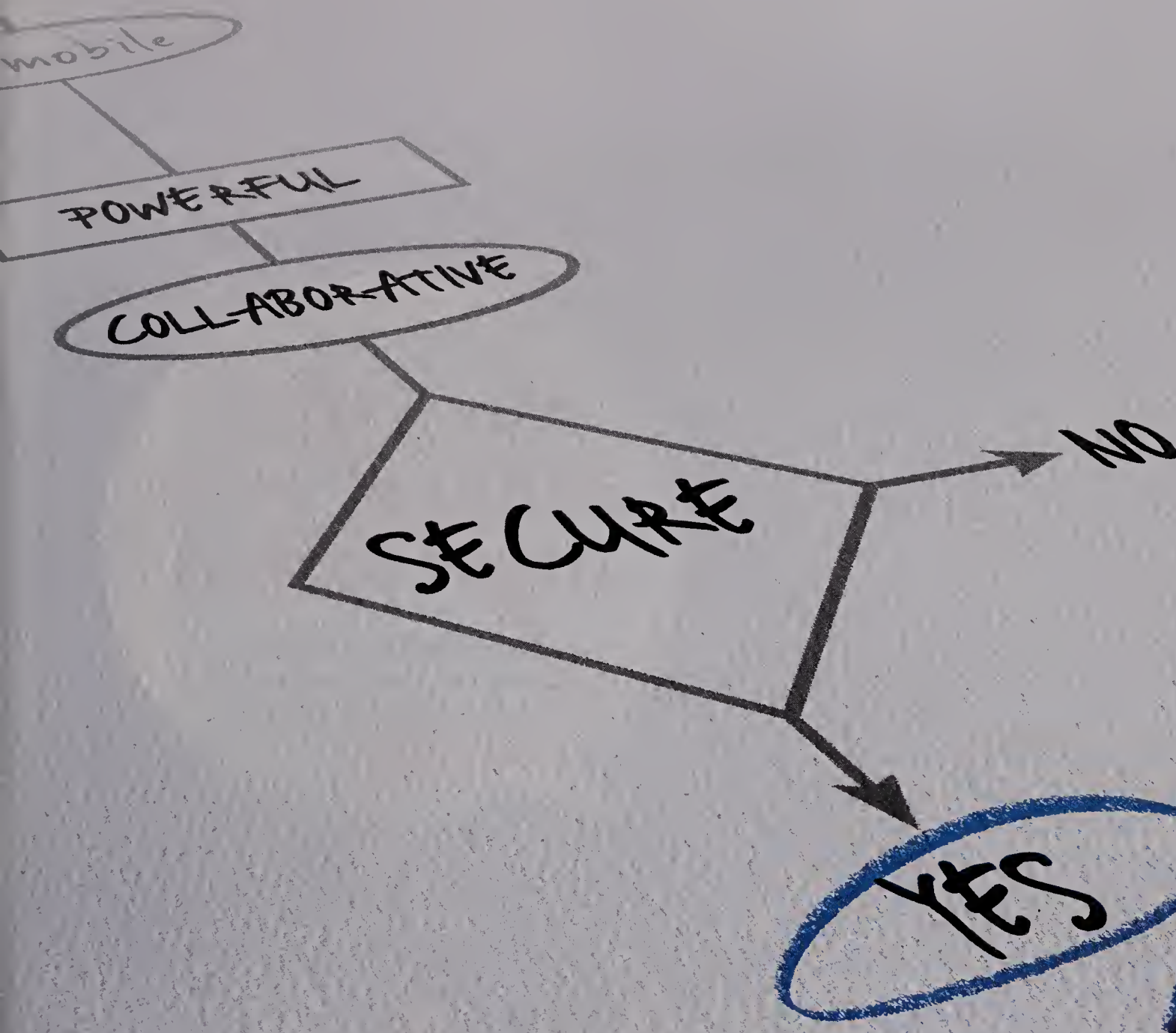


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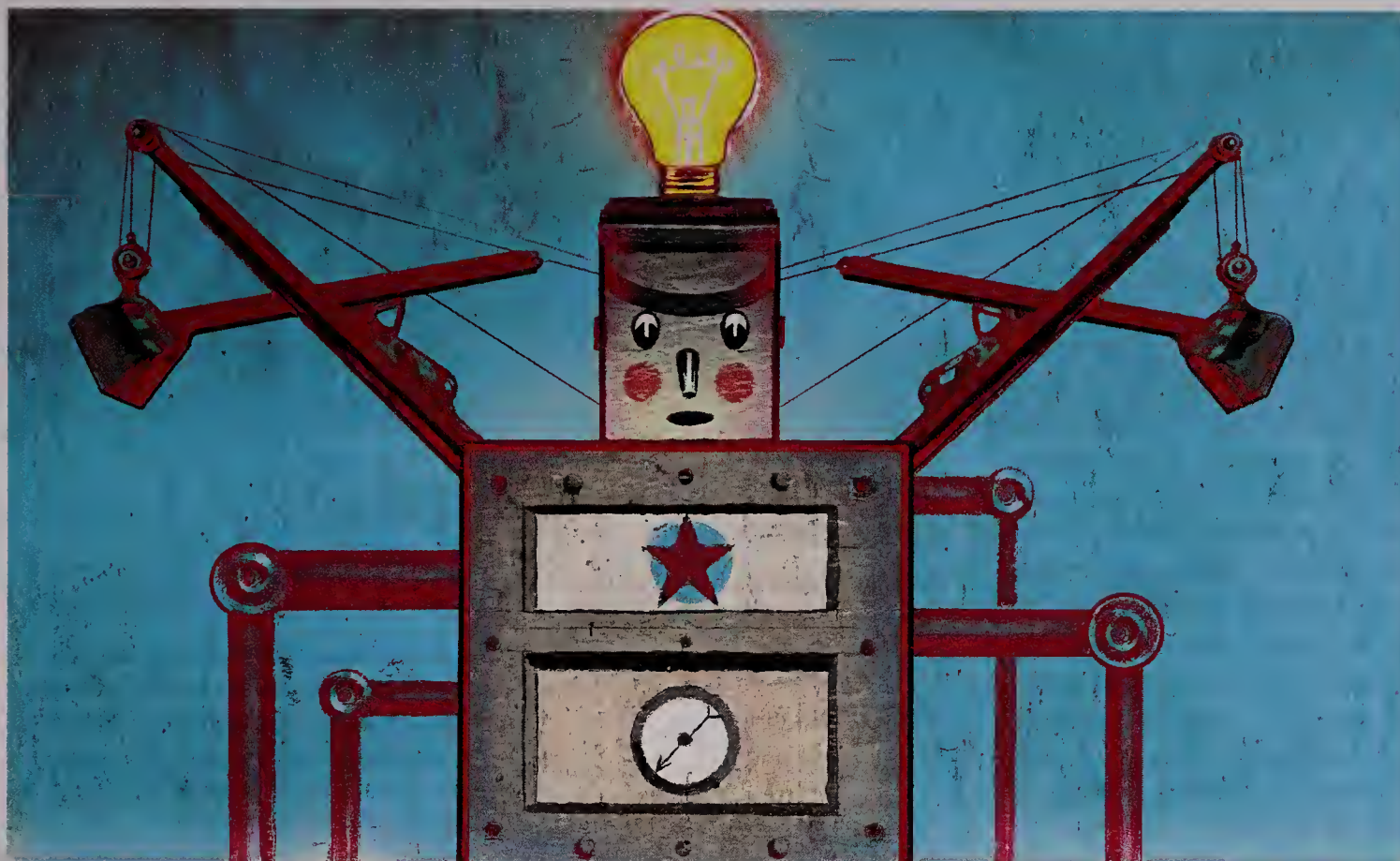
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## Digging for Innovation

Mining company Rio Tinto partners with an offshore outsourcer to go from ideas to implementation **BY STEPHANIE OVERBY**

**The growth of the** developing world will likely require as many mineral resources over the next 25 years as have been used since the dawn of the Industrial Revolution. But those scarce minerals will become increasingly difficult to recover from the earth.

It's a basic problem of supply and demand, but the solutions are anything but basic for John McGagh, head of innovation for mining company Rio Tinto. "We look for big problems," he says. "My shop is not about incremental innovation. We ask ourselves one question: What can't we do today that, if we could do it tomorrow, would fundamentally change the business?"

Mining practices have remained largely unchanged for more than a century. So when Rio Tinto began developing its Mine of the Future program to bring new automation and remote operations to the 139-year-old company, McGagh looked outside for help.

"We don't believe our strategic advantage is design," says McGagh, whose team of 100 people is aided by at least ten times that outside the company. To overcome that, "we build networks." >>>



►►► **Innovation** Continued from Page 11

Those networks include a center for mine robotics and automation at the University of Sydney, an advanced mineral recovery research program with London's Imperial College, and General Electric's Ecomagination initiative to deliver lower-carbon solutions for surface mining.

The ideas have come fast and furious, but just two of every 100 ideas make it to pilot, and even those often don't get adopted. Suggestions include a laser scanner that drives around a mine pit to produce a real-time 3-D model of the environment and an autonomous explosives truck programmed to create precise blast holes. The goal is a safer, more efficient and more effective mining environment where people work like air-traffic controllers—supervising drills, loaders and trucks from hundreds of miles away.

"It became obvious that we needed a partner to accelerate our surface mining, data mining and robotic technologies," says McGagh. That's where Indian IT service provider iGate came in. "We wanted a partner who could look outside the closed world of mining and say, 'Here's ideas from biotech or automotive or aerospace,'" says McGagh, who prefers PhDs and MBAs working on the project. "We wanted to have that intellectually combative and inquisitive exchange."

McGagh refuses to use the word "outsourcing." "We were looking for technical capability insourcing—a way to bring on board an innovation center, which happens to be in Pune [India] and happens to be operated by our partner," he says. "We had to build a lot of cultural and technical links, and it was a challenge to bring this much larger group [into the fold]."

His team has evolved to better manage the relationship, such as by incorporating "people who can speak the language of our business and translate to our network partners," says McGagh. While some Rio Tinto competitors do develop emerging technologies in-house, McGagh prefers his way. "If we tried to do it internally, it would be miners thinking like miners," he says. "Have you been to a mining conference? It's downright dull."

Stephanie Overby is a freelance writer based in Massachusetts.

**"If we tried to do this internally, it would be miners thinking like miners."**

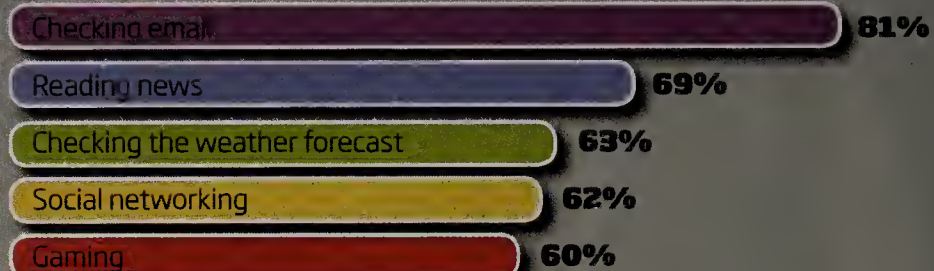
—John McGagh, head of innovation, Rio Tinto

# crunch

## What **Tablets** Are REALLY Used For

People have quickly begun using tablets for daily media consumption, a Gartner study says

**Personal activities moving from PCs to media tablets:**



SOURCE: GARTNER SURVEY OF 510 TABLET-USING CONSUMERS, JULY 2012; MULTIPLE RESPONSES ALLOWED

## Trading Data for Free Stuff

Consumers know that their personal data is valuable to companies, and they aren't afraid to share as long as the information isn't too personal and they receive something in exchange, according to a study by PricewaterhouseCoopers.

The study was based on a survey of 1,000 U.S. consumers and a series of focus groups. PwC found that 73 percent of respondents were willing to share information—depending on what they would get in return. That number increased to 76 percent if they were offered gifts such as free entertainment.

In the survey, most consumers said they were willing to share information about their gender, marital status and TV or movie preferences. But consumer willingness to share personal data fell dramatically for information about their current location, employment history, Web browsing, cell phone number, medical or financial information, and texting information. Respondents showed the most sensitivity about their Social Security number and their cell phone calling history.

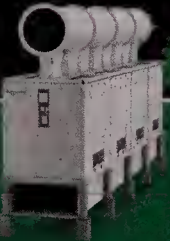
Consumers consider their cell phones extremely personal and private, says Mark Lobel, principal with PwC Advisory Services.

—Thor Olavsrud

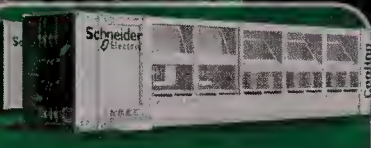
.....**21%** CIOs who say their mobile device policy poses a high risk. Gemalto .....**69%** People who won't sleep until they've checked work email. Good Technology .....**50%** Americans who are anxious traveling without mobile devices. Intel



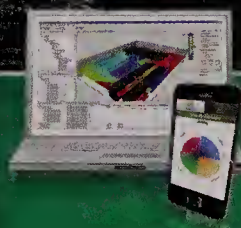
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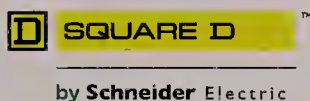
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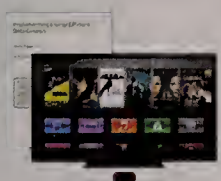
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# Preempting the Next CIO

Tackle the problems that your successor would jump on—now, while you still have the chance to be the hero **BY BRYSON PAYNE**

**I**n my six years as a CIO, I've heard countless statistics, jokes and other reminders of my job's typically short shelf life. Fortunately, I'm also a tenured associate professor, so I'll get to opine about IT leadership long after my "best if used by" date has passed.

After about four years in the post, though, I stopped asking *why* CIOs are such a famously short-lived breed. I chose instead to focus on pressing problems at my organization from a new perspective:

## What would the next CIO do?

It's one simple question that produces searing clarity. I came up with three areas of concern to help me answer that question and focus on the long-term health of my IT team and my organization as a whole.

**Pain points.** What annoying problems would my replacement fix? New leaders typically start by fixing the most easily solved problems—the low-hanging fruit. Of course, IT leaders have many other duties, such as strategic innovation, 24/7 operations and 99.999 percent availability. Along the way, though, stay connected enough to users to know whether there are pain points that need addressing. Your replacement will certainly start there, so why shouldn't you?

**Jackhammer issues.** What nagging problems do users deal with so often that they've tuned them out, like a jackhammer operating right outside the building? When someone starts using a jackhammer within earshot, it's jarring and unpleasant. If the jackhammer continues every day, though, your discomfort eventually fades as you learn to filter out the noise and work around the inconvenience.

A new person would ask, "How can you work with that jackhammer running all day?" but those who have been there awhile might reply, "What jackhammer?"

What workarounds are your colleagues and users forced to use? What hoops do your customers have to jump through to deal with persistent annoyances in your IT sys-

tems and processes? What new options would a replacement CIO offer to get rid of lingering, minor hurdles in the technology experience in your organization?

Don't let someone else come in as the hero. Eliminate unnecessary inconveniences for your users while you still have the chance.

## What relationships would the next CIO build, repair or transform to reconnect IT to the daily business of the organization?

**Relationship rescue.** What relationships would the next CIO build, repair or transform to reconnect IT to the daily business of the organization? What partnerships would your replacement strengthen or form to make technology more effective across your organization?

If you strive to connect people more than you separate them, if you include people in prioritizing, planning, and preparation, if you reach out to people that others sometimes overlook, you'll build relationships that allow you to

accomplish much more than you could eke out alone.

Author and futurist Thornton May says, "Your network will keep you safe." He's not talking about gigabit fiber optics. He means your human network will keep you connected to the organization, connected to users, connected to your customers—and that more than anything will keep you safe. It won't make you untouchable or invincible or guarantee your job. Rather, your relationships will keep you in tune with your organization's needs, which will focus your vision on bringing the most value to your workplace.

So while you've got the opportunity *now*, tackle some of the things you would do if you were the new guy. Remove some pain points, eliminate some nagging jackhammer issues, and start forming the relationships a new CIO would need to bring the most value to the role. Don't wait for someone else to take all the glory.

Bryson Payne is CIO at North Georgia College and State University. Contact him at [bpayne@northgeorgio.edu](mailto:bpayne@northgeorgio.edu).



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## Casting a Wider Safety Net

Desktop virtualization allows Iowa to lower costs and expand employment services **BY KIM S. NASH**

**When 2011 budget cuts** forced the state of Iowa to close 36 of 55 employment offices, government officials looked for ways to keep providing services to residents, 90,000 of whom were out of work.

Using desktop virtualization tools, the state equipped schools, libraries and other public buildings with secured online applications for residents to get help with filing for unemployment, writing resumes, searching for jobs, and accessing state programs. The project has been so successful that a year later, Iowa provides more services in more places than ever before—for less than it used to spend.

"We were reacting to necessity at first. But we're able to keep services and still save money," says Gary Bateman, CIO of Iowa Workforce Development, a state agency that oversees employment services. "We feel pretty good about that."

The agency won a CIO 100 award for the project, which saved \$6.5 million in state funds ▶▶

As CIO of Iowa Workforce Development, **Gary Bateman** used desktop virtualization to extend access to employment services despite budget cuts.



PHOTO BY SCOTT SINKLIER



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►► **Virtualization** Continued from Page 16

and impressed our judges as a great effort to make services available and quickly achieve good financial payback. The state already had hardware and software licenses in place and reused existing equipment. The additional cost was just \$8,600.

Desktop virtualization wasn't exactly new to Iowa Workforce Development. Like 53 percent of IT leaders we recently polled about technology plans, its IT group had already rolled out desktop virtualization technology—in this case, to about 600 state employees, who, as it turned out, served as guinea pigs for last year's broader, public rollout.

The employees helped IT identify best practices. For example, the user interface must be as simple and graphical as possible, says Bateman, who joined the agency in November 2010 after a career in corporate IT in the automotive industry. The virtual desktop employees used had a clunky folder metaphor, like mid-1990s-era Microsoft Windows. The public system uses the icons and Web-style links popular with the consumer public instead.

The agency started the public rollout in July 2011 with one virtual access point in each of Iowa's 99 counties. Now there are 3,510 access points in 722 locations across the state. That includes senior citizens centers, courthouses, National Guard armories and places of worship. One university has installed over 500 machines so students can get started on job searches. "Anything with an Internet connection is a candidate," Bateman says.

One surprise for the state was how much the system is used in the evenings and on weekends. Before, residents could get access to employment services only during the hours that physical offices were open, typically 8:00 a.m. to 4:30 p.m. on weekdays. Now, people are online until 9:00 p.m. and, Bateman suspects, there would be traffic even later if libraries and other public buildings were open later. Saturday is the system's busiest day.

Armed with data about usage, the state started to make staff available by phone and online chat until 8 p.m. on weekdays and added five hours of Saturday service.

The new system has served about 180,000 people so far, and at least one high school wants Bateman to adapt it for use on iPads to give access to teenagers preparing for college, trade school or the working world. "It's a proven system now," he says.

Senior Editor Kim S. Nash can be reached at [knash@cia.com](mailto:knash@cia.com). Follow her on Twitter: [twitter.com/knash99](https://twitter.com/knash99).

## Big Bank Gets More Social

BY KRISTIN BURNHAM

**F**ive years ago, TD Bank Group recognized that social media would become big. "We knew social would be creeping into the workforce and we wanted to be ahead of it," says Wendy Arnott, vice president of social media and digital communication. The question was how to go about it.

The company's intranet had the seeds of something social, but it needed help, so the bank looked at enterprise social media tools. "If we got employees used to using social tools at work, lots of good ROI would come of that, we thought," Arnott says.

**What they did:** TD Bank started by establishing a committee composed of senior leaders. This team, called Next@Work, rounded up a list of requirements from the various business units. TD Bank's IT department, which is made up of 8,000 people and serves more than 85,000 employees, also had a number of requirements for a social enterprise tool.

"First we looked for a match against our business [and] functional requirements, which included security, compliance and privacy capabilities," says TD Bank's CIO Glenda Crisp. "Then we looked for alignment to our technology standards. Finally, we considered the capability of the vendor to continue to develop the product into the future. This includes their commitment and ability to partner and grow with us in the future."

Once the requirements had been determined, Arnott says Crisp's team and her own came together to merge their lists, focusing on what the business really needed and what would actually work in their organization. Ultimately, they signed with IBM, and the project got under way in January 2011.

**How they did it:** The first phase of the project was technical, Arnott says—installing the software, scaling and ensuring it wouldn't have any unintended side effects. "From a technology work effort, it was a fairly vanilla implementation," Crisp says.

The second phase consisted of determining which business units would get the most value out of being in the pilot group. TD Bank then ran workshops with those groups to understand how they collaborated and determined which enterprise social network features—such as file sharing and wikis—they felt would help. "It was more of a validation process so [that] they came to agree that it made sense to them," Arnott says.

By the end of the pilot, 2,000 users were enrolled. Today, more than 65,000 employees have engaged with TD Bank's enterprise social network, and more than 4,000 communities, blogs and wikis have been set up.

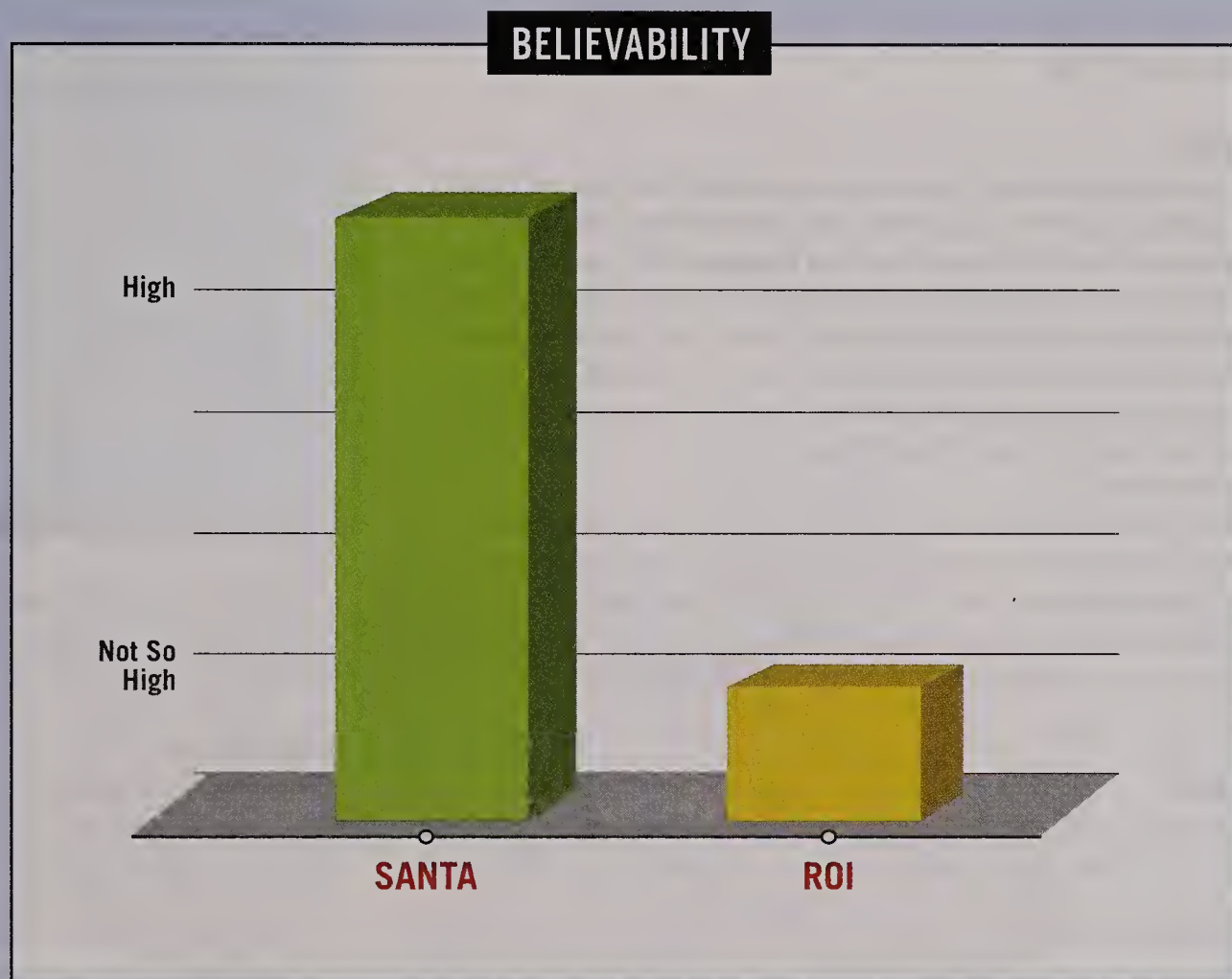
"It's a more efficient way to work," Arnott says.

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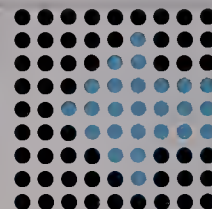
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# Virtual Ecosystem

VMware, the leader in server virtualization, hopes to conquer the rest of the data center

BY JOAB JACKSON

## THE PITCH

VMware has helped so many businesses virtualize their servers that now the company wants to help them virtualize entire data centers.

Virtualization helps organizations cut hardware and power costs while gaining greater flexibility, and VMware has captured the lion's share of this server virtualization market. So now the company wants to virtualize other aspects of IT operations, such as storage, networking and support for client devices. VMware's vision is to tie all of these resources together to create "fully virtual data centers," says Steve Herrod, VMware's CTO.

"By having all the major pieces controlled by software, the software-defined data center can be used to provision all enterprises services on demand," Herrod says. Such an architecture, in theory, would require fewer machines and fewer support personnel. It would also allow organizations to respond faster to changing market conditions.

## THE CATCH

The software-driven data center looks promising for VMware. "The whole idea of the enterprise data center is being rethought and moved into the cloud," says Gary Chen, an analyst at IDC (a unit of CIO's parent company).

Beyond server virtualization, though, VMware is in uncharted waters. As CIOs broaden the scope of virtualization, they'll need management tools to automate and watch over their virtual resources, only some of which may be VMware's, says Carl Brooks, an analyst at 451 Research. "That is a very different proposition than providing a hypervisor," Brooks says.

VMware's vCloud management tool may excel at managing VMware cloud deployments, but IT organizations will want a single console to deal

with both VMware and non-VMware resources. This is why the company's acquisition of DynamicOps in July was a key development; DynamicOps's software can manage both VMware-based clouds and alternatives such as Amazon's cloud.

Also, the audience for virtual data centers may be limited, given that VMware requires organizations to use x86 hardware. It will take some time for many organizations to move mission-critical applications to x86 hardware, says Charles King, lead analyst at Pund-IT.

Nor are all enterprises gung-ho to virtualize every aspect of their data centers, King adds. "The cost of failure, especially for large enterprises, typically outweighs the benefits of wholly virtualized environments, so it makes sense for organizations to

## THE COMPANY

### VMware

**Headquarters:** Palo Alto, Calif.

**Employees:** 11,000

**2011 Revenue:** \$3.77 billion

**CEO:** Pat Gelsinger (as of Sept. 1)

**What They Do:** VMware provides virtualization and virtualization-based cloud infrastructure software designed to help organizations streamline the way they build, deliver and use IT. In July, VMware acquired Nicira, whose OpenFlow technology will be folded into VMware's portfolio of virtual networking software.

support those processes and applications with dedicated mission-critical systems," King says.

## THE SCORE

Despite potent competitors such as Microsoft and Citrix, VMware still leads the way in enterprise virtualization—a springboard for providing cloud services. "The virtualization vendor best-suited to enable that market evolution is VMware," King says.

Although VMware itself doesn't offer a public cloud service, more than 100 third-party hosting providers now use the company's vCloud management package for their own cloud services. According to VMware, those cloud services are used by 350,000 customers in 24 countries.

"We want to offer a lot more choice in regions and types of clouds," Herrod says. "It's about developing a large ecosystem of public clouds."

Joab Jackson is a correspondent for IDG News Service.



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# THE NEW BOTTOM LINE ON CIO PAY

Our exclusive research reveals how much top-tier CIOs' compensation **rises** and **falls** with their companies' fortunes

BY KIM S. NASH

**Wayne Shurts has accomplished** a lot since he joined Supervalu as CIO in April 2010: He embedded his IT staff in business departments, handed out iPads with real-time data to 1,100 supermarket managers, and implemented a promotion analytics system critical to the grocery company's business-transformation plan.

For all that hard work, Shurts got paid \$1.3 million in fiscal year 2011. It's a nice sum, but not as big as it could have been.

As one of Supervalu's five most highly paid executives, his compensation rises and falls not so much on his own performance but on whether the company hits certain financial metrics. Supervalu exceeded its goal for cash flow, but fell short on same-store sales and missed net profits entirely, losing \$1.5 billion.

While some companies might have handed out some cash for hitting one goal, Supervalu didn't. Its board of directors stipulated that no one would get any performance-related cash payout unless the company reached an earnings per share of at least \$1.85, the number the company had hit the year before. But Supervalu tanked in fiscal 2011, ending the year losing \$7.13 per share, and executive officers received zero cash incentives.

CIOs in the tippy-top echelons of executive ranks realize that although they are expected to perform technology

and strategy work like Olympic athletes of IT, they are not rewarded for that sweat alone. The CIO's individual contribution must mesh with those of his C-suite mates, because only together can they hope to achieve the business metrics the board puts before them—and, afterwards, take home the really big bucks.

But even with such alignment, the company may still blow financial targets, dragging down the CIO's compensation just like that of his colleagues. The pay packages of CIOs and other executives can fluctuate 40 percent year-to-year, according to our analysis of annual proxy statements filed recently with the Securities and Exchange Commission (SEC). CIOs can do everything right, but larger economic forces or fundamental company problems can still mean they watch potential pay slip away. Supervalu, for example, is "reviewing strategic options" to get itself out of financial trouble, then-CEO Craig Heckert said in July.

"You're among the top officers of the company and your fortunes are very strongly intertwined with theirs," says Rick Ericson, an executive compensation consultant at PricewaterhouseCoopers. "You are subjected to lots of risks that are outside of your control."





PHOTO BY CHRIS LAKE

Allstate CIO **Suren Gupta** says it makes perfect sense for CIOs, as part of the senior leadership team, to monitor the rise and fall of their company's stock price.



## Metric Madness

It used to be that CIOs were judged and rewarded solely on IT achievements: projects finished on time and on budget, compliance systems installed and working, key hires made. That's still how it is for many CIOs, whose companies view IT as a support function.

But as enterprises build business models around IT, CIOs gain stature and influence—as well as the pressure of trying to hit a list of accounting targets that were once the burden of the CEO and CFO only. Michael Basone, CTO at Weight Watchers International, says IT leaders must remain undaunted. Financial metrics help focus top executives on the same goals, Basone says. But that's only half the battle. Companies must also foster true collaboration at the top, he says, because IT is fused with every other part of the business.

Without IT, there's no sales or profits or customer service or geographic expansion or, increasingly, competitive advantage.

One way to assess how high the stakes are for companies—and for their CIOs, personally and professionally—is to dissect the compensation plans of some powerful IT leaders. Among the 1,000 biggest public companies in the United States, 45 CIOs were rewarded highly enough last year to be included in the proxies required by the SEC, which explain how the top five company executives are paid. Compensation for this elite 45 is a complex formula of fixed pieces, such as salary and perquisites, and variable pieces made up of cash, stock and options. Within the variable portion, there are both short- and long-term grants. To get them, executives have to achieve the financial goals the board specifies. The motivation? Variable pay can account for 70 percent to 80 percent of a CIO's compensation.

There's no uniformity in those metrics. Profits and sales are popular, of course, but CIOs in our analysis were on the line for at least a dozen other measurements last year, including cash flow, return on invested capital, book value per share and operating ratio. There is also usually an industry-specific metric. For example, Norfolk Southern CIO Deborah Butler had to help her peers improve the railroad's train and connection performance. (Partially achieved.) Allstate CIO Suren Gupta had to help increase the number of policies sold to households that might be interested in multiple kinds of insurance. (Not achieved.) Sometimes special events at the company

# Paycheck Metrics

Annual compensation for top CIOs is tied to whether the company meets financial targets

**T**he financial metrics that CIOs and fellow senior executives strive to meet measure corporate health, not specific IT achievements. That suits "mature professionals" just fine, says Wayne Shurts, CIO of Super-valu, a \$36.1 billion grocery chain. "Some years [your compensation] may get pulled down by the company's overall performance and other years you may get pulled up," he says. "What's important is that everybody is focused on the company's performance, not their individual function."

Wal-Mart was criticized this year for lowering targets for some performance metrics, making them easier to hit and, as a result, making it easier for executives to earn large bonuses. Shareholders expressed concern that the company now emphasizes sales growth at the expense of return on investment. Wal-Mart countered that its metrics and compensation plan works. "Our incentive compensation programs provide appropriate incentives to our senior executives to manage the company in a manner that will help us achieve our strategic priorities of growth, leverage, and returns, and, therefore, maximize shareholder value," the company said in its latest proxy statement.

Performance metrics can be highly political, says Vincent Milich, a compensation consultant at Hay Group. "There is considerable scrutiny of executive compensation. The compensation committee can adjust targets."

Sometimes boards of directors create a specialized composite metric, combining several measures. For example, railway company Norfolk Southern last year tied part of the compensation of senior officers to a composite of adherence to its operating plan, train performance and connection performance.

Other common metrics include the following:

**Return on Invested Capital (ROIC):** Operating income divided by shareholders' equity plus long-term debt. Home Depot measures ROIC over three years and surpassed its target for 2011.

**Book Value per Share:** Shareholders' equity divided by the total number of shares outstanding. Allstate surpassed the minimum level the board set for this metric last year.

**Operating Ratio:** Operating expenses divided by operating revenue. Norfolk Southern improved its operating ratio last year, contributing to executive bonuses.

**Return on Equity:** Net profits divided by an average of shareholders' equity over a specified period. Last year, MetLife and Ameriprise Financial exceeded their return-on-equity goals.

**Return on Assets:** Net profits plus interest expense divided by average assets over a period of time. SunTrust Banks last year replaced return on equity with return on assets as a corporate metric because it says the asset measurement better reflects company performance and profitability. —K.S.N.

dictate a goal. Laboratory Corporation of America (LabCorp) recently acquired three smaller medical testing companies, and one 2011 goal for CIO Lidia Fonseca was to help attain specific savings from integrating those acquisitions. (Achieved.)

Some companies disclose more than others. Home Depot, for example, reveals three levels of goals for each of its four metrics for 2011: sales, operating profit, inventory turns and return on invested capital. (See "Paycheck Metrics," above.) The company



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The fact that CIOs are measured and paid in the same ways as other senior officers is a sign of maturity, says **Lidia Fonseca**, CIO of Laboratory Corporation of America.

also shows the relative weighting of each metric in its incentive plan. CIO Matt Carey earned \$1.1 million in stock and \$656,000 in options mainly because the company surpassed targets for operating profit and return on invested capital over a three-year period. Carey's total compensation of \$3.2 million puts him in the top 10 among our 45 most highly paid CIOs (see "Compensation Champs" chart, Page 28).

Weight Watchers, on the other hand, is more vague in its SEC filing. The company specifies a target for operating profit (at least \$423.2 million, the same as it saw in 2010). But it doesn't reveal numerical goals for its online business, which Basone runs as president. He says he surpassed his marks for WeightWatchers.com, with online subscribers up 50 percent in 2011 compared to 2010. Basone earned \$1.3 million last year; he got a \$390,000 bonus, or 91.5 percent of his \$426,000 salary, for attaining goals for the online business and for the company as a whole. He also received awards in stock (\$199,000) and options (\$252,000), the same as his fellow officers, and other financial benefits.

Ericson at PwC notes, however, that even the most inventive compensation plans can't pull a great performance from a mediocre CIO. More important to the company over time is getting the right CIO in the first place. With all that top officers are responsible for, he says, "if things go badly, any one person can materially hurt a company."

## No "I" in Team

CIOs may also have individual technology goals set by the CEO and approved by the board. But achieving individual goals doesn't boost annual take-home pay by much because the IT goals aren't weighted nearly as heavily as corporate financial targets. For every \$100 in incentive compensation for top officers, Ericson estimates, \$10 or less comes from achieving personalized goals. "That's the numerical reality."

So, while rolling out mobile applications to the sales force is important for the CIO to do well and it might ultimately help increase corporate revenues, the mere act of completing the mobile project doesn't buy a CIO much, personally.

For a company, allowing too many individualized goals creates the risk that particular executives will focus on their own targets to the detriment of the corporation, says Vincent Milich, a compensation expert at Hay Group, a management consulting company. Metrics define behaviors, he says. "During the recession, we had people making millions in bonuses and grants while the organization was going down the tubes."

The recession has been a downer. Gone are country-club memberships and family use of the corporate jet, which were two popular perks for CIOs five or six years ago. Today, club membership, if you want it, is on you and the jet is usually reserved for the CEO and sometimes his family, thank you very much.



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# Compensation CHAMPS

The proxy statements of public corporations—which are filed with the Securities and Exchange Commission and are publicly available—describe the compensation packages of the five most highly paid executives. Sometimes that includes the CIO. Below are the 10 most highly paid CIOs among those listed in 2011 proxy statements for Fortune 1000 companies.



SOURCE: SECURITIES AND EXCHANGE COMMISSION PROXY FILINGS FOR 2011

#### Footnotes:

(1) Includes awards of stock and options, other incentive pay, perks and cash bonuses, if any.

\* Left April 2011, replaced by Robert Edwards.

\*\* Held position until Nov. 2011, when she became EVP of Global Employee Benefits, a new business unit; replaced by Martin Lippert, who joined from Citigroup.

\*\*\* Retired in June 2012, replaced by Kevin Summers, who joined in July from Whirlpool.



Discretionary cash bonuses are few and far between these days, too. Just 11 of the 45 CIOs in our study got such gifts last year, compared to 19 of the 52 CIOs listed in proxies in 2006. The drop from 37 percent to 24 percent receiving discretionary bonuses reflects a new activist attitude among board compensation committees, Milich says. "The oversight around compensation is more intense, focused on making sure we're getting something for the bonus dollars we're paying out."

Supervalu's Shurts, it must be said, did get some cash in fiscal 2011 that was unrelated to company performance: a \$125,000 hiring bonus and a \$50,000 discretionary bonus from his CEO.

Meeting financial metrics "is the fun part" of the CIO job, Shurts says. "Anything we do in IT must tangibly affect something that our customers can feel [or] that our P&L sheet can see," he says. "Even just five years ago, how much did we talk about IT and the [corporate] revenue line at a company? Very little. Today it's a big thing."

That attitude trickles down to his staff because he uses the financial targets to clarify IT's mission. When project ideas are assessed against corporate goals, it's easy to see what to work on and what to ignore, he says. "The question becomes, How do we not just do what's technically possible or cool, but how do we impact these metrics? It gives your IT effort focus and an agenda."

Fonseca uses a similar clarifying technique for her IT staff. The main way LabCorp makes money is by physicians ordering tests, she says. IT must work fast to get new customers connected to LabCorp and to supply them with the right electronic tools. "It's important they can start turning into revenue," she says. Like Home Depot, LabCorp set three levels of corporate goals—threshold, target and "superior"—and the company surpassed the top end of three out of four of its metrics last year. Fonseca took home \$1.2 million.

## Eyes on the Price

CIOs who earn multimillion-dollar payouts know that the value of their stock and options grants depends on the price of the company's stock. When it comes to awards of straight-up shares, it's the bigger, the better. Options, meanwhile, are worth the difference between the stock price on the day they're awarded and the day they vest. That means stock price may be the most-watched metric of all, Milich says.

"In the organization's lobby, a ticker shows it. People have it on laptops and desktops and mobile phones. When it's been a bad day for the company in terms of stock price, you feel it," he says. "Executives always look at it."

Monitoring share price is exactly what responsible executives should do, Gupta says. The idea is that if you, as part of the leadership team, hit all the financial metrics you're after, the company becomes more valuable, people want to invest in it and the stock price rises. Allstate's big financial goal now is 13 percent return on equity (ROE) by 2014, meaning the company wants to generate at least 13 percent in profits from the money people have invested by buying shares of stock. "ROE is all about shareholder value," he says.

Allstate, however, has a long way to go: ROE last year was 4.2 percent. The insurer posted just \$788 million in profits on more than \$32 billion in revenue. And many of those multi-

**"YOU CANNOT BUY STOCK IN A COMPANY'S I.T., FINANCE OR MARKETING FUNCTIONS. A company is a team, and it either wins or loses together."**

—Wayne Shurts, CIO, Supervalu

policy households disappeared. Allstate had a target of selling 50,000 new policies to existing customers last year, but instead it lost more than 36,000 policies.

Gupta, who joined Allstate in April 2011, has ideas for how IT can help Allstate reverse those trends. He wants to upgrade the technology of insurance agents in local offices and centralize customer data from Allstate's many policy databases. This would allow agents to serve customers better and sell to them more efficiently, he says. He is also holding his group to 3,726 service-level agreements, which helps to improve IT's reputation within the company.

CEO Thomas Wilson likes Gupta's plans so much that he gave the new CIO \$500,000 in bonus money last year for quickly re-aligning the IT group and "planning to enhance the use of technology" at the company, according to its latest proxy statement. Gupta's total compensation for 2011 was \$2.9 million.

To entice high-performing executives to stay and commit to creating lasting value for the company and investors, companies offer long-term incentives of stock and options awards. It can take five years to reap the rewards of such grants. For example, Home Depot is only now paying out on stock granted in 2009. At Supervalu, Shurts won't see some of his options fully vest until 2014. That's why they call it "long-term."

## Coming of Age

That CIOs are measured and paid in the same ways as other senior officers, Fonseca says, is a metric itself—of maturity. As CIO, she is the only IT member of a 15-leader team that approves and prioritizes company IT projects, and she is one of a smaller, more-exclusive group that strategizes about new business the company wants to create.

"For us, it's not just aligning with the business. IT has to be *in* the business," she says. "That has been a key driver in being an effective CIO."

As companies begin to make their CIO compensation similar to that of other senior business leaders, Shurts adds, "it is a coming of age." He relishes his role as a fellow C-level strategist at Supervalu. "My contribution is equal to any other executive's," he says. "You cannot buy stock in a company's IT, finance or marketing functions. A company is a team, and it either wins or loses together." **CIO**

Contact Senior Editor Kim S. Nash at [knash@cia.com](mailto:knash@cia.com). Follow her on Twitter at [twitter.com/knash99](https://twitter.com/knash99).



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#### CIO is published in the U.S. as well as in:

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**Business Offices:** CXO Media Inc.,  
492 Old Connecticut Path, P.O. Box  
9208, Framingham, MA 01701-  
9208, 508-872-0080.

CIO (ISSN 0894-9301) is published monthly, with additional issues in May, June, September, October and November by CXO Media Inc. Periodicals postage paid at Framingham, MA, and at additional mailing offices. Canada Publications Mail Agreement Number PM40063731. CANADIAN POSTMASTER: Please return undeliverable copy to P.O. Box 1632, Windsor, ON N9A 7C9.

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**Postmaster:** Send change of address to CIO, P.O. Box 489, Northbrook, IL 60065-9816. Printed in the U.S.A.

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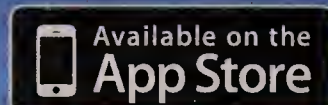
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*-Lauren Brousell*

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